

CHINA'S WTO ACCESSION IN AMERICAN ECONOMIC STRATEGY

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Thank you, and let me thank Clyde very much for this chance to speak on one of the most important American trade and foreign policy decisions in many years: China's accession to the World Trade Organization and permanent Normal Trade Relations status.

ONE-WAY CONCESSIONS

When Congress opens its formal debate on this topic next week, in the most basic sense it will be addressing a trade policy issue. And in these terms, the choice is clear.

Our agreement on China's WTO accession secures broad-ranging, comprehensive, one-way trade concessions on China's part. These concessions:

- Open China's markets to American exports of industrial goods, services and agriculture to a degree unprecedented in the modern era.
- Strengthen our guarantees of fair trade.
- Give us far greater ability to enforce China's trade commitments.
- And facilitate the WTO accession of Taiwan, which has made an equally valuable set of market access commitments.

By contrast, we change no market access policies -- not a single tariff line. We amend none of our trade laws. We change none of our laws controlling the export of sensitive technology. We agree only to maintain the market access policies we already apply to China, and have for over 20 years, by making China's current Normal Trade Relations status permanent.

This is the only policy issue before Congress. Regardless of our decision, China will enter the WTO. Regardless of our decision, it will continue to sell in the American market. The only question Congress will decide is whether we will accept the benefits of China's accession and the agreement we negotiated; or whether by turning away from permanent NTR, we enable our competitors across the world to get them while Americans are left behind.

PRINCIPLES OF TRADE POLICY

From the strict perspective of American economic self-interest, there is little reason to say more. But China's accession also has implications for many of the broader goals at the

foundation of modern trade policy; and it is on these topics that I will concentrate today.

For over five decades, Americans have led in development of an open world economy under the rule of law. We have done so for reasons reflecting, first of all, clear economic logic:

- Open markets abroad offer our businesses, farmers and workers larger markets: almost 80% of world economic consumption takes place outside the U.S., and to grow and remain competitive in the future, America must have fair access to these markets.
- At the same time, open markets at home give us access to imports, which dampen inflation; spark the competition that promotes innovation and efficiency; and raise living standards, most of all for the poorest among us.

These are ideas with broad application. We tend to believe they reflect Western liberal thought, but one can also cite the classical Chinese historian Ssu-ma Ch'ien, writing in 90 B.C.:

"There must be farmers to produce food, men to extract the wealth of mountains and marshes, artisans to process these things, and merchants to circulate them. There is no need to wait for government orders: each man will do his part as he gets what he desires. So cheap goods will go where they fetch more, while expensive goods will make men search for cheap ones. When all work willingly at their trades, just as water flows ceaselessly downhill day and night, things will appear unsought and people will produce them without being asked."

ACCOMPLISHMENTS OF THE TRADING SYSTEM

Today's World Trade Organization is an attempt to create such an economy for ourselves and our trading partners. But it is also a response to challenges that lie beyond economic textbooks. Its roots lie in the General Agreement on Trade and Tariffs, which dates to 1948; and the GATT in turn reflected the experience of our postwar leaders in Depression and war.

In the 1930s, they had seen their predecessors yield to a cycle of protection and retaliation, with the Smoot-Hawley Act in the United States and colonial preference schemes in Europe, which deepened the Depression and contributed to the political upheavals of the era. Eighteen years later, they believed that by reopening world markets they could restore economic health and raise living standards. In larger terms, as part of the broader postwar internationalist vision -- the economic stability fostered by the IMF and the World Bank; international standards of human rights, embodied in the Universal Declaration on Human Rights and a series of later Conventions; and the collective security commitments of the United Nations, NATO, the Rio Treaty, and our Pacific alliances -- open markets would give nations greater stakes in stability and prosperity beyond their borders, strengthening a fragile peace.

Since then, we have completed eight negotiating Rounds, and 113 new members have

joined the 23 GATT founders. The agenda has broadened from tariffs -- which have dropped by 90% on average -- to non-tariff barriers, dispute settlement, agriculture, services, intellectual property, telecom, information technology, financial services and electronic commerce. The work continues today, with the WTO's decision in February to open negotiations on agriculture and services, and our work to broaden these talks into a new Round. And when we step back a moment, we see its enormous benefit:

- Growth and Rising Living Standards: The opening of world markets has helped to spark what is in effect a fifty-year economic boom: since 1950, trade has expanded fifteen-fold; world economic production grown six-fold; and per capita income nearly tripled. And the result has been historically unprecedented social progress: since the 1950s, world life expectancy has grown by twenty years, infant mortality dropped by two-thirds, and famine receded from all but the most remote or misgoverned corners of the world.
- Economic Security: In the Asian financial crisis, with 40% of the world in recession, the respect WTO members had for their commitments kept open the markets necessary for affected nations to recover. Thus the system of mutual benefit and rule of law represented by the WTO helped prevent a cycle of protection and retaliation like that of the 1930s; and ultimately to avert the political strife that can erupt in economic crisis.
- Peace and Stability: Through the accession of new members, the trading system has helped us address political challenges fundamental to world peace and stability. It helped reintegrate Germany and Japan in the 1950s, and then the nations emerging from colonial rule in the 1960s and 1970s. It has now taken up a task of equal gravity, as after the Cold War, nearly 30 nations breaking with communist planning policies have sought WTO membership to reform their economies and integrate with the world.

CHINESE REFORM AND U.S. TRADE POLICY

With this we come to China.

The world's largest nation, for many years, was one of the great rents in the trading system. When our modern relationship began in 1972, its economy was almost entirely divorced from the outside world. After the Communist revolution in 1949, it had expelled foreign businesses and banned direct economic contact between Chinese citizens and the outside world. At home it offered virtually no space for private farming or business; externally, it conducted what trade it felt necessary through a few Ministries. Such policies impoverished China and contributed to its revolutionary role in Asia: isolated from Pacific markets, Asia's largest nation had little stake in a peaceful and stable region, and every Pacific nation felt the consequences.

In the intervening years, American trade policy has worked to end this isolation. Our policies, viewed in detail, have sought to advance specific American trade interests; but they also have pushed forward a strategic vision. By opening China's markets, and helping to give China

access to world markets, we have sought to ensure that this nation of 1.2 billion people plays its proper role as an export market and a source of economic growth for its Asian neighbors; promote reform and economic liberalization within China; and, ultimately, help China find a different and healthier role in the Pacific region.

This is a strategy consistent with China's own reforms. At home, since the 1970s, China has reversed the most damaging policies of the Great Leap Forward and Cultural Revolution era, abolishing rural communes and reviving private business in villages and cities. Reform has established an internal market; eroded the repressive "work-unit" system that bound workers to particular jobs and factories; reduced the state's role as an owner and manager of factories; and, over time, begun to replace bureaucratic control with law. Externally, reform has begun to open China to the world, substantially relaxing although not abandoning entirely bans on foreign investment and private export trade.

American trade policy has worked with reform at every step -- from the lifting of the trade embargo in 1972, to our Bilateral Commercial Agreement and grant of Normal Trade Relations (then MFN status) in 1979, renewal of NTR every year since; and most recently, detailed agreements on intellectual property, textiles and agriculture. To look at a case in point, our work on intellectual property rights rests on commitment to fight theft through piracy of our most creative industries. But it meant more than this: to develop an intellectual property policy is to draft and publish laws; to train lawyers and officials; to improve and ensure access to judicial procedures; ultimately, to create due process of law where it did not exist before.

This is one example of a much broader process of economic reform, opening to the world, and adoption of internationally accepted trade principles which have served China, its neighbors and ourselves well. In China, they have helped over 200 million Chinese men and women escape from poverty. For us, they have sparked \$10 billion in export growth since our Commercial Agreement. And their advantages go beyond material gain.

While China remains an authoritarian and repressive country, reform has strengthened personal freedoms and begun to develop the rule of law. It has also made China a more integrated, responsible member of the Pacific community. To choose an example, when the Asian financial crisis began, South Korea and the ASEAN were (setting Hong Kong aside) the source of a seventh of China's foreign direct investment, and the market for a sixth of its exports. Thus, while in 1967 these nations were China's ideological rivals, in 1997 they were customers who support Chinese factories and farm incomes, and the investors who create Chinese jobs. This is the backdrop to China's decision to maintain currency stability and contribute to recovery packages for its Asian neighbors during the financial crisis.

REFORM INCOMPLETE

But the work is not yet done. As the economist and reform advocate Cao Siyuan has put it, China has opened the door; but only to reach out and cautiously shake hands.

To look back again on the financial crisis, while China's policy was constructive, important and valuable, its neighbors did not have the opportunity to use China as a market which could spur recovery. ASEAN and Korean exports to China – already low – actually dropped between 1997 and 1998. Or to use another index, closer to home, our \$10 billion in export growth to China since 1980, while substantial, is far less than our export growth to almost any other major trading partner over the same period.

This reflects the fact that reform is incomplete. Some policy legacies of the revolutionary era remain in force today, and others are only partly reformed. Beyond the unusual features of the Chinese economy are more typical trade barriers: high tariffs are joined by an array of largely secret quotas, and industrial policies that require investors to transfer technology, purchase parts only from Chinese sources, and so forth. More generally, the country suffers from poorly developed market institutions and the lack of a reliable rule of law.

These are barriers to American products, but problems for China as well. Just as China's external and internal trade barriers block imports, they also – as China's senior leaders realize – lead to corruption and economic inefficiencies which block China's own prospects for sustainable growth, job creation and technological progress.

THE WTO ACCESSION

Against this background, the WTO accession assumes its full economic significance. Our bilateral agreement address each barrier to American goods, services and farm products, and all the major unfair trade practices. As it does so, it will help China build an economy prosperous and open to the world, to its own benefit and that of its Asian neighbors. These commitments go well beyond removing border trade barriers, to alter policies dating to the earliest years of the communist era:

- For the first time since the 1940s, China will permit foreign and Chinese businesses to import and export freely from China.
- China will reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services.
- China will enable, again for the first time since the 1940s, foreign businesses to participate in information industries such as telecommunications, including the Internet.
- And China will subject government decisions in all fields covered by the WTO to impartial dispute settlement when necessary.

Each commitment is specific, detailed, and fully enforceable -- through our own trade laws, WTO dispute settlement, periodic multilateral review of China's adherence, multilateral pressure from all 135 WTO members, and other mechanisms such as the special anti-dumping rules and anti-import surge remedies. We are already preparing, with the President's most recent budget request, for the largest enforcement effort ever devoted to a trade agreement.

Finally, China's entry will facilitate Taiwan's entry into the WTO. This will have substantial trade benefits, as Taiwan is already a larger export market for us than China. And the opening of both economies, while we have no guarantees, may ultimately play some part in easing the tensions in the Strait. It should thus be no surprise that Taiwan's new leadership supports both China's WTO membership and normalized trade relations between China and the United States.

WTO ACCESSION AND BROADER INTERESTS

In economic terms, then, the choice is clear. To enter the WTO, China makes one-way concessions; if we do not grant permanent NTR, others will take advantage of them at our expense.

For our trade interest, then, to reject PNTR would be foolish. And just as the economic merits of the foundation of the GATT were simply one element in President Truman's broader vision, so today the economic consequence of rejecting PNTR would be the least of the damage.

We have concerns and responsibilities towards human rights and the rule of law in China. Here, many Chinese dissidents and Hong Kong democratic leaders – Bao Tong, jailed for seven years after Tiananmen Square; Ren Wanding, a founder of China's modern human rights movement; environmentalist Dai Qing; Martin Lee, leader of the Hong Kong Democratic Party – believe WTO accession and PNTR are the most significant steps toward reform and the rule of law in China in twenty years. To reject permanent NTR is to ignore their views and turn our backs on nearly thirty years of work to support reform, improve the legal system and offer hope for a better life to hundreds of millions of Chinese. And it is to give up the hope of contributing in the future to a China freer, more open to the world, and more responsive to the rule of law than it is today.

And we have a fundamental national security interest in a peaceful, stable, mutually beneficial relationship with China. And in this sense, to reject PNTR would be reckless.

No trade agreement will ever solve all our disagreements. These will require patience, statesmanship on both sides of the Pacific, and the foundation of a stable and mutually beneficial relationship.

But WTO accession, together with PNTR, will address many of them. And if we turn down a comprehensive set of one-way concessions, we not only lose their concrete and immediate benefit, but make a very dark statement about the future of our relationship with the world's largest country.

Such a statement would threaten our work on all the specific issues in our China policy agenda. It would complicate for the foreseeable future our Pacific alliances, as all our Asian friends and allies would view rejection of PNTR as unprovoked rejection of stable and constructive relations with their largest neighbor. Over the long term, and perhaps most

important, China -- seeing no economic reason for our decision -- would become more likely to read hostile intent into our every move; and this in turn would raise the prospect that our present disagreements and tensions will only escalate.

CONCLUSION

But if we have the wisdom and confidence to make the right choice, before us is a remarkable opportunity.

Over three decades, together with our Pacific alliances and military commitments; in tandem with our advocacy of human rights; and in the best tradition of postwar American leadership; our China trade policies have helped us build a relationship with the world's largest nation which strengthens guarantees of peace and security for us and for the world. WTO accession, together with permanent Normal Trade Relations, will be the most significant step in this process in many years.

Franklin Roosevelt, in his last message to Congress, called the opening of the negotiations which led to the GATT a chance "to lay the economic basis for the secure and peaceful world we all desire." We have such a chance again, more than half a century later, as Congress prepares to debate China's entry into the institution Americans have helped to build ever since.

That is the opportunity. These are the stakes as the Congressional debate begins. This is why it is so important that we succeed.

Thank you very much.